

# INNOVATION MANAGEMENT

## EXPLOIT CHANGE THROUGH SYSTEMATIC INNOVATION

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### INTRODUCTION

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Peter Drucker has written, "Business has only two basic functions: marketing and innovation. Marketing and innovation produce results. All the rest are costs." We go even further to state that innovation in marketing is also essential. Therefore business has only one basic function -- innovation. Innovation is the basis of all competitive advantage: the means by which organizations anticipate and fill customer needs and the method by which organizations utilize technology. Innovation either endows resources with a new capacity to create wealth or creates a new resource. Innovation is the process of implementing new ideas, of turning creative concepts into realities. In a broader sense innovation can occur in all areas:

- Technical
- Social
- Political
- Economic

Innovation in one area always affects the other areas. Innovation can cause change or it can exploit change. Systematic innovation that exploits change is generally the most effective. Drucker has defined systematic innovation as "the purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer for economic or social innovation."

Organizations need systematic innovation to:

- Stay in business
- Delight customers
- Establish competitive advantage
- Deliver quality products and services
- Be more productive
- Meet business goals
- Attract and keep the best people

Our approach to systematic innovation (Innovate!) creates an effective and efficient organization through market-driven, purposeful innovation. We have developed a systematic process of identifying the changes occurring in a market, understanding the opportunities and threats that will result from these changes, developing a strategy to take advantage of the opportunity and avoiding or minimizing threats, assessing the organization's capability to implement the strategy, and developing an organization which can effectively and efficiently innovate.

Benefits of this approach are:

- Introduction to a new way of thinking about organizations and innovation.
- Learning some new concepts about management that will, when applied appropriately, establish you as a leader of organizational change.
- Development of entrepreneurship.

- Helping your organization become market driven. It will do what is appropriate for the market and it will anticipate the market. As a result, the organization will become more effective and efficient. The process will enable organizations to implement the "new business philosophy" described by Drucker in a recent Wall Street Journal article.
- Society will benefit because the organizations within it that create wealth and meet societal needs will be more sharply focused on the proper targets. The purpose of business is innovation, which, when properly focused, creates wealth as defined in the broadest sense. The creation of wealth benefits all.

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### **PURPOSEFUL INNOVATION: THE KEY TO SUSTAINED COMPETITIVE ADVANTAGE**

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It is obvious now even to the casual observer that we are in a time in which continuous innovation -- a constant commitment to change -- is an essential ingredient to organizational success and, even more fundamentally, to survival. Change will never go away. It will always be with us. However, at this moment the pace and magnitude of change are at a crest. In the aftermath of the crest, some of us will be among the missing, swept away by the crosscurrents of change and this applies to individuals, companies, and whole industries. No one is safe; history teaches us that.

The question, then, is not whether to innovate, but how? Books and articles by the thousands promise easy solutions or easy strategies. But, as someone once said, for every complex problem there is a simple answer, and it's probably wrong. If we are to solve the problem of continuous organizational innovation, we must respect the complexity of the issue.

In the American culture, exploiting change is not what is expected of an innovator. America's image of innovators is that of lone inventors struggling against tremendous odds to bring ideas to the world. Then, when they have succeeded, the world rewards them by beating a path to their door. However, this is the least successful way to innovate.

Quite often, the Japanese are labeled as being non-innovative. However they are very innovative. It is just that the Japanese prefer to take advantage of change. When innovations result from change, they seem to be very normal and natural developments, even though the innovations may, in reality, be breakthroughs, such as the Sony Walkman.

But how do organizations innovate purposely, taking advantage of changes that are occurring? Cookbook approaches do not provide the answers. Such approaches are more like a development process, steps to go through in a very general sense, but with little clue as to how to focus the organization's innovative activity. General advice books are good for hints about creating an innovative culture or organizing for innovation, but they, too, are unfocused. Organizations that follow their advice may well work on unnecessary innovations while forsaking the necessary ones.

And, lastly, the single-strategy books and articles promise success if you just follow their advice. Most of them recommend that you move quickly and that you make incremental changes. This may be good advice for some industries and for certain companies within those industries, but it is not correct for everyone and may lead to failure.

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## BECOME MARKET DRIVEN

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The correct innovation strategy is to be market driven; that is, to innovate in the direction the market indicates. This way, the organization can develop the purposeful and organized search for changes that Drucker suggests. The principles of being market driven are very simple, fundamentally sound, and very powerful. To be market driven, organizations must understand the markets, commit to leadership in the markets they choose to serve, execute with excellence across the organization, and keep the customer foremost.

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## WHAT IS A MARKET?

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A market consists of three components: customers, competition, and technology. The pull of the market comes from current, identified potential, and unidentified potential customers. Market push comes from the technology -- direct, supportive, and enabling. The clash in the marketplace comes from competitor -- direct, indirect, and structural.

A systematic search through these three elements of the market identifies innovation opportunities. Ideally, organizations would prefer to pinpoint an area where customers want innovation, where the technology has the potential to provide it, and where there is little competition. To understand the market, then, is to develop a description of the innovation opportunity. That opportunity is there for everyone to discover. Whether the organization takes advantage of it or not depends on its strategy and capability.

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## INNOVATIVE ORGANIZATIONS

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A shared vision is the enabling force that drives an organization. If this vision encompasses the commitment to leadership and embraces innovation, it can be used to develop an innovation strategy; to do that, the innovation opportunity must be developed through understanding the markets. It is through a management style called teleocracy, described by Mobley and McKeon, that the vision can be established.

Organizations have gone through three fundamental styles of management over time -- autocracy, bureaucracy, and entrepreneurship (or intrapreneurship). Each has its place in history, its organization, and environmental conditions. In the current environment, teleocracy is more appropriate for most organizations.

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